


## STATE OF MAINE REVENUE FORECASTING COMMITTEE

### Members:

Jerome Gerard, Chair, Acting State Tax Assessor  
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Marc Cyr, Principal Analyst, Office of Fiscal and Program Review  
Michael LeVert, State Economist  
Dawna Lopatosky, Acting State Budget Officer  
Grant Pennoyer, Director, Office of Fiscal and Program Review

December 1, 2010

TO: Governor John Baldacci  
Governor-elect Paul LePage  
Members, 125<sup>th</sup> Legislature

FROM:  Jerome Gerard, Chair  
Revenue Forecasting Committee

RE: **Summary of December 2010 Revenue Forecast**

The Revenue Forecasting Committee (RFC) met on November 23, 2010 to review the current revenue forecast to comply with the statutory reporting date of December 1<sup>st</sup> and has revised its revenue projections through the fiscal year ending June 30, 2013 for the General Fund, Highway Fund, Fund for a Healthy Maine and the Medicaid Dedicated Revenue Taxes. The RFC also produced the first forecast of revenues for the period that extends through the subsequent biennium that ends June 30, 2015 (FY15). This letter with attachments provides a summary of the major findings and recommendations of the RFC. A more detailed report will be available later and posted to the RFC's web site as soon as it is completed.

In its November 1, 2010 report the Consensus Economic Forecasting Commission (CEFC) provided forecasts for the major economic variables that were used as inputs to Maine Revenue Services' tax models to help project revenue from the major taxes. Data related to non-tax revenue lines were provided by a number of different state agencies. Amidst continued economic uncertainty over the national economy, the revised CEFC forecast was mixed, recognizing improved but still negative wage and salary employment growth in calendar year 2010 while reducing previously estimated gains in 2011 and 2012. This is consistent with the view that the economy has picked up in 2010 a bit more than had been expected but will continue to improve at a slower, more prolonged pace than expected. Personal income was a more positive story. Growth in 2010 was revised upward strongly; previous growth in 2011 was left unchanged on a percentage basis, but that growth will be increasing from a higher base and an already strong 2012 performance was revised upward further. The explanation for improvement in personal income at a faster pace than wage and salary employment is that as the recovery moves forward employers will increase hours, eliminate furlough days and restore part-time workers to full-time status for existing employees before they add to the employment numbers by hiring new employees.

The CEFC report did emphasize that this forecast may be “subject to a larger than usual level of risk that may result in downward revisions to personal income and wage and salary employment in the April 2011 forecast”. In particular, the CEFC noted that the forecast assumes that the Federal Reserve Bank will expand monetary policy through quantitative easing and that the “Bush tax cuts” will be extended for all income levels through 2011. If these assumptions do not hold true, economic activity could falter, which could lower the revenue forecast. The European debt crisis and other global issues could work to choke off a sustained recovery as well.

A copy of the November 2010 report of the CEFC is available on the web at:

[http://www.maine.gov/legis/ofpr/revenue\\_forecasting\\_committee/consensus\\_economic\\_forecast/nov2010.pdf](http://www.maine.gov/legis/ofpr/revenue_forecasting_committee/consensus_economic_forecast/nov2010.pdf)

The following tables and narratives highlight the changes to each of the major funds and revenue sources included in this December 2010 forecast of the RFC. More detail on each of the funds and revenue sources is provided in the attachments to this letter.

### General Fund Summary

	<b>FY10 Actual</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
Current Forecast	\$2,755,682,500	\$2,773,914,960	\$2,782,786,538	\$2,900,922,633		
Annual % Growth	-2.0%	0.7%	0.3%	4.2%		
Net Increase (Decrease)		\$111,560,095	\$170,487,312	\$195,091,215	\$3,281,969,701	\$3,418,595,261
Revised Forecast	\$2,755,682,500	\$2,885,475,055	\$2,953,273,850	\$3,096,013,848	\$3,281,969,701	\$3,418,595,261
Annual % Growth	-2.0%	4.7%	2.3%	4.8%	6.0%	4.2%

General Fund revenue estimates (also refer to Attachment A) are being revised upward by \$111.6 million in FY11 and \$365.6 million in the 2012-2013 biennium. These increases are the result of the revised economic forecast and the fact that fiscal year-to-date actual revenues through October of 2010 have a positive variance of \$56.7 million.

Individual Income Tax was the biggest contributor to the positive change with a \$43.3 million increase in FY11, a \$127.4 million increase in FY 2012 and \$143.0 million in FY 2013. This category is directly affected by changes in personal income and was up \$20.4 million through October of 2010. Long-term projections for the new forecast period are for gains of 7.6% in FY14 and 5.5% in FY15.

The second largest change was in the Corporate Income Tax line, which was raised \$41.7 million in FY11. This category was ahead of previous estimates by \$26.6 million through October. Business profits for the current year are much stronger than previously projected as businesses have become leaner and more efficient by trimming costs. Revenue gains are flowing more quickly to the bottom line and are improving net profitability. The upward revision for the 2012-2013 biennium is \$83.8 million.

The Estate Tax was another major gainer with an increase of \$11.2 million in FY11. Much of this is attributable to a single estate payment of approximately \$6 million. Such payments are unusual and are typically excluded from the on-going base for projections of future years, consequently, the upward revision for the 2012-2013 biennium only totals \$12.7 million.

Cigarette and Tobacco Tax revenues are raised approximately \$8.5 million each year in FY11, FY12 and FY13 based on a higher amount collected in FY10. Maine appears to have recaptured some sales previously leaking across the border to New Hampshire after its recent cigarette tax increase significantly narrowed the price differential between Maine and New Hampshire. Despite this jump up

in the starting base, the long-term trend is still expected to be a slow decline in sales each year due to declining consumption of tobacco products.

Insurance Companies Tax revenue is revised upward \$4.8 million in each year of the forecast period to build a portion of the higher amount received in FY10 into the baseline going forward.

Although the computer tax model projected a modest decline in Sales and Use Tax and Service Provider Tax revenue, primarily due to increased rates of savings or debt payments, this was inconsistent with recent experience through October and Maine Revenue Services did not recommend any changes these categories.

The net changes to the major tax lines that affect revenue sharing transfers remain positive throughout the forecast period and as a result increase estimates for the amount of revenue sharing to be distributed to municipalities throughout the forecast period. An additional \$3.9 million is projected to be distributed in FY11 and another \$17.1 million in the 2012-2013 biennium.

Other net General Fund changes increase revenue by \$5.0 million in FY11 but decrease it by \$6.0 million in the 2012-2013 biennium. The largest changes in each year were from Department of Health and Human Services revenue.

### Highway Fund Summary

	<b>FY10 Actual</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
Current Forecast	\$311,190,374	\$307,066,369	\$312,095,494	\$317,915,100		
Annual % Growth	-4.0%	-1.3%	1.6%	1.9%		
Net Increase (Decrease)		\$662,438	\$2,930,662	\$2,454,744	\$326,885,858	\$333,029,695
Revised Forecast	\$311,190,374	\$307,728,807	\$315,026,156	\$320,369,844	\$326,885,858	\$333,029,695
Annual % Growth	-4.0%	-1.1%	2.4%	1.7%	2.0%	1.9%

**Highway Fund** revenue estimates (also refer to Attachment B) are revised upward by \$0.7 million in FY11. The forecast for the 2012-2013 biennium is also increased by \$5.4 million. Major gains in Fuel Taxes category were due to higher than projected gasoline tax collections in FY10 resulting in a higher base to which higher growth rates were applied as a result of the economic forecast. The inflation forecast only had a modest downward effect by slightly lowering projected tax rates for FY13. Projections for the Gasoline Tax are increased by \$5.1 million in FY11 and by \$14.2 million for the 2012-2013 biennium. Most other Highway Fund revenue categories including Special Fuel and Road Use Taxes (primarily tax on diesel fuel) are being revised downward and partially offset the increases in Gasoline Tax projections.

### Fund for a Healthy Maine Summary

	<b>FY10 Actual</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
Current Forecast	\$57,560,142	\$56,423,536	\$62,820,377	\$63,346,364		
Annual % Growth	-15.9%	-2.0%	11.3%	0.8%		
Net Increase (Decrease)		(\$3,629,443)	(\$9,361,249)	(\$8,754,193)	\$60,472,838	\$60,146,432
Revised Forecast	\$57,560,142	\$52,794,093	\$53,459,128	\$54,592,171	\$60,472,838	\$60,146,432
Annual % Growth	-15.9%	-8.3%	1.3%	2.1%	10.8%	-0.5%

**Fund for a Healthy Maine (FHM)** revenue estimates (also refer to Attachment C) are reduced in FY11 by \$3.6 million and by \$18.1 million in the 2012-2013 biennium. The reductions reflect the latest

National Association of Attorneys General estimates for Tobacco Settlement Payments (TSPs) and assume full withholding from the state of certain disputed payments by participating manufacturers. Not reflected in this forecast is the risk that an arbitration panel meeting in April of 2011 could rule on a related legal issue in favor of Phillip Morris that could cost Maine \$13 million immediately in FY11. FHM's share of Racino Revenue is being reduced in FY13, which is consistent with the revisions that lowered the General Fund's share of this revenue source downward.

### **Medicaid/MaineCare Dedicated Revenue Taxes Summary**

	<b>FY10 Actual</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
Current Forecast	\$140,012,817	\$148,907,342	\$148,907,342	\$148,907,342		
Annual % Growth	1.4%	6.4%	0.0%	0.0%		
Net Increase (Decrease)		\$2,350,896	\$2,350,896	\$2,350,896	\$151,258,238	\$151,258,238
Revised Forecast	\$140,012,817	\$151,258,238	\$151,258,238	\$151,258,238	\$151,258,238	\$151,258,238
Annual % Growth	1.4%	8.0%	0.0%	0.0%	0.0%	0.0%

**Medicaid/MaineCare Dedicated Revenue Taxes** revenue estimates (also refer to Attachment D) are revised upward by \$2.4 million in FY11 and by the same amount in each year of the 2012-2013 biennium based on level funding from the actual amount collected in FY10.

#### Attachments

cc: Members, Revenue Forecasting Committee  
 Members, Consensus Economic Forecasting Commission  
 Jane Lincoln, Chief of Staff, Governor's Office  
 Ellen Schneider, Commissioner, DAFS  
 Clerk of the House  
 Secretary of the Senate  
 David Boulter, Executive Director, Legislative Council  
 Legislative Staff Office Directors